

FINAL REPORT

Interim Committee on Tax Exemptions (SCR 119)

Members of the Committee

Senator Brent Hill, Co-chair
Senator Joe Stegner
Senator Tim Corder
Senator Lee Heinrich
Senator Jeff Siddoway
Senator David Langhorst
Senator Diane Bilyeu

Representative Dennis Lake, Co-chair
Representative Gary Collins
Representative Jim Clark
Representative Dell Raybould
Representative Mike Moyle
Representative Nicole LeFavour
Representative Bill Killen

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Interim Committee on Tax Exemptions

Charge

The Interim Committee on Tax Exemptions was created by the adoption of Senate Concurrent Resolution No. 119 which provided that the Committee was to study the state's tax exemptions, deductions and credits and to make recommendations for a strategy to statutorily limit them more specifically to the uses for which they were originally intended.

Meetings and Presenters

The Committee held meetings on August 1, 2 and 3 and October 1 and 2, 2007, in Boise.

At the August 1 meeting the Committee heard from representatives of the National Conference of State Legislatures, the Department of Agricultural Economics and Rural Sociology of the University of Idaho, the Associated Tax Payers of Idaho, the Idaho Association of Counties, the City of Caldwell and the City of Eagle.

At the August 2 meeting the Committee heard from representatives of the Department of Commerce, the Boise Metro Chamber of Commerce, the Idaho Association of Commerce and Industry, the National Federation of Independent Business, Ben Johnson and Associates, BioIdaho, the Idaho Center for Budget and Tax Policy and the Common Interest.

At the August 3 meeting the Committee further heard from a representative of the Common Interest, the Economic Analysis Bureau of the Division of Financial Management and the State Tax Commission.

The following presentations are available on the Legislature's web site:

Tax Principles Evaluation

Good Tax Policy: Tax Exemptions and Economic Development

NFIB Members Presentation

Tax Exemptions & Good Tax Policy: Perspectives on Individual Tax Policy

Perspectives on Individual Tax Policy

Grounding Tax Policy in Founding Principles.

Recommendations

At the October 2, 2007 meeting the Committee moved to adopt the following principals for the germane committees of the Legislature to follow:

Principles for Evaluating Tax Deductions, Credits and Exemptions in the State of Idaho

1. EQUITY AND FAIRNESS

- a. Is the benefit available to ALL organizations or individuals in similar industries or situations?
- b. Is the benefit BROAD (for virtually all classes of taxpayers) or NARROW (limited to a few)?
- c. Is the product or service, or its component parts, already taxed by the state or other government?

2. CERTAINTY

- a. Are rules clear about when and how tax is paid and amount due?

3. CONVENIENCE OF PAYMENT

- a. Is the tax payable at a time and in a manner convenient to taxpayers?

4. ECONOMY IN ADMINISTRATION

- a. Is the benefit easy to claim by the taxpayer?
- b. Is the benefit easy to administer by the government?

5. SIMPLICITY

- a. Does the benefit simplify or clarify existing tax code rather than complicate it?
- b. Is the benefit easily calculated and accountability maintained with minimal recordkeeping?
- c. Does the benefit bring us in compliance with federal law rather than create another departure?
- d. Are unintended consequences unlikely (are ramifications well-understood?)

6. BENEFIT OBJECTIVES

- a. How does the benefit influence the behavior of individual taxpayers or organizations?
- b. Are the objectives of the benefit clearly stated?
- c. To what extent does the tax benefit promote the public interest?
- d. Does the benefit serve to attract or stimulate the state's economic condition, particularly in areas in need of growth?
- e. Is the benefit needed in order to compete with similar benefits in surrounding states?

7. TRANSPARENCY AND VISIBILITY

- a. Can the public easily understand the benefit and/or consequence of any tax shift?
- b. Is the benefit better claimed as a tax break rather than through a budget appropriation?
- c. Would a sunset, clawback or cap provision be appropriate?

8. APPROPRIATE GOVERNMENT REVENUES

- a. Does the tax break benefit an organization that provides goods or services that the government would otherwise provide?
- b. Is the fiscal impact of the tax benefit reasonably determinable with existing or readily developed data?
- c. Does the benefit have an acceptable impact on government revenues?

At the October 2 meeting, the Committee agreed the following should be subject to review by the germane tax committees:

Uses of Income Not Taxed and Sources of Income Not Taxed

First Tier:

- Investment Tax Credit
- Youth Rehabilitation Credit
- Broadband Investment Tax Credit
- Corporate Headquarters Investment Credit
- Corporate Headquarters New Jobs Credit

Second Tier:

- Alternative Energy Device Deduction
- Insulation Deduction
- Lottery Winnings Exclusion

Sales Tax Expenditures Specific Uses Not Taxed

First Tier:

- Broadcast Equipment and Supplies
- Publishing Equipment and Supplies
- Ski Lifts and Snowgrooming Equipment
- Corporate Headquarters Construction

Second Tier:

- Clean Rooms
- Media Production Projects

Sales Tax Expenditures Goods Not Taxed and Services Not Taxed

First Tier:

- Vending Machine and Amusement Devices
- Funeral Caskets
- Lottery Tickets and Pari-mutuel Betting

Second Tier:

- Professional Services

Sales Tax Expenditures Specific Entities Not Taxed

First Tier:

- State of Idaho and Local Government Purchases
- Sales Through Vending Machines
- Auto manufacturer rebates

Second Tier:

- INL Research and Development Purchases
- Sales by Indian Tribes on Reservations.